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SIPDIS

TREASURY FOR INTERNATIONAL AFFAIRS - CPLANTIER
NSC FOR MERKEL AND MCKIBBEN

SENSITIVE

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SUBJECT: Tourism Key to Economic Impact of Avian
Influenza

This cable was coordinated with Congen Istanbul.

1. (SBU) Summary: Unless the Avian Influenza outbreak continues to expand and stays in the headlines, the economic impact for the overall Turkish economy is likely to remain confined to the poultry sector and additional hardships for poor families with backyard flocks. The larger risk -- that the AI scare would hit the critical tourism industry -- will only materialize if the AI story persists over the next month or two when most tourists book their summer visits. Though there is anecdotal evidence of sluggish bookings, it is still too early to be sure there will be a significant effect on growth and jobs. End Summary.

AI Fears Hit Commercial Poultry Sector Hard

2. (SBU) The screaming headlines about Avian Influenza in recent weeks and the broader public's fears have had the greatest economic impact on Turkey's commercial poultry industry. Though almost entirely for domestic consumption, the poultry industry is well-developed in Turkey, with modern plants using international-standard methods. The industry has also taken strong measures to protect against contamination from AI-measures that have been effective to date. Recognizing the effectiveness of these measures, the Ministry of Agriculture has no plans to cull birds in commercial operations.

3. (SBU) Despite the safety of meat from commercial operations, public fears -- fueled by sensationalist press coverage -- have translated into the bottom falling out of the domestic poultry market. Poultry Association officials confirmed to us that sales are down over 90%. With egg sales off sharply as well, companies are slaughtering egg-laying chickens rather than incurring the cost of feeding them. Naturally, feed companies are also being hit hard, and neither the poultry nor the feed companies have sufficient storage capacity to allow them to wait until the public resumes buying chicken and eggs. Press is reporting that layoffs at poultry plants are imminent. Some companies may face bankruptcy absent government assistance.

4. (SBU) Ismail Koksall, Secretary General of the Union of Turkish Chambers of Commerce (TOBB) confirmed press reports that TOBB and poultry sector leaders met on January 14 with five government ministers, led by Deputy Prime Minister Abdullatif Sener. The poultry sector requested the government consider some combination of loans and/or postponement of tax, social security premia, and electricity bills. The GOT ministers have set up a working group that is evaluating possible measures, and is expected to announce its decisions in the next few days.

5. (SBU) Though towns with heavy concentrations of poultry producing plants, mostly in western Turkey, are likely to suffer severe local recessions, the broader impact on the economy of the collapse of poultry sales is likely to be minor. Total sector sales are estimated to be around \$2.5 billion, accounting for less than one percent of GDP. In terms of employment, however, Koksall told us the poultry sector directly employs 120,000 workers, but indirectly employs 500,000 workers, out of a total work force of 24 million.

Villagers' Loss of Chickens Harder to Quantify

6. (SBU) Much harder to quantify, but much broader in its impact on the poorest segment of society will be the culling of backyard flocks. The Turkish Union of Chambers of Commerce (TOBB) estimates there are about 20

million backyard fowl in Turkey. Approximately 1 million have been culled to date. We understand that the Ministry of Health is in favor of culling all of these backyard fowl, but that the Ministry of Agriculture is opposed to such a sweeping cull as economically and logistically unfeasible.

17. (SBU) Villagers, and recent migrants to cities, tend to keep chickens and to rely on them as a source of protein or income. If a large share of these chickens are culled, the loss would only add to the financial stress of these families, who tend to be among the poorest segment of Turkish society. The impact, however, would not be visible in macroeconomic data, and is extremely difficult to quantify. If, as promised, the authorities are able to compensate the families for the lost birds, however, this would obviously mitigate the impact. A massive compensation program, both for commercial poultry operations and culled backyard fowl, could have a budgetary impact. The amounts announced so far (about \$26 million) would have a negligible impact but ultimately compensation will have to be a much larger -- but still unknown -- sum.

Impact on Tourism is the Big Question

18. (SBU) Far more important for Turkey's overall economic situation is the potential impact on the tourism industry, which, directly or indirectly, is a major employer in Turkey. As one of Turkey's few labor-intensive foreign currency earning industries, loss of tourism revenue would set back the country's efforts to translate its recent spurt of economic growth into job creation. Moreover, with the growing current account deficit increasingly viewed as the single greatest vulnerability in an otherwise improved economic situation, Turkey can ill afford a major setback in tourism, which helps finance the balance of payments through inflows of foreign exchange from tourists. Deutsche Bank's Istanbul economic analyst calculates that, even if tourism receipts are flat from 2005 to 2006, he would elevate his projection for the -- already worrisome -- current account deficit for 2006 from 6.2% of GDP to 6.6%. If tourism revenues drop by 10% in 2006, he would project a whopping 7% current account deficit. The IMF Deputy Resrep told us the Fund has not yet seen hard evidence of an impact on tourism, but is looking at all scenarios, including very dire scenarios if the virus mutates to allow human-to-human transmission.

19. (SBU) On the other hand, Turkey has enjoyed strong growth in tourism in recent years, despite concerns that the continued real appreciation of the lira would diminish Turkey's competitiveness as a tourist destination. In 2005, tourism revenues are estimated to have increased 20% to around \$16 billion. With Turkey's 2005 current account deficit estimated to come in at about \$22 billion, it is hard to overemphasize the importance of tourism receipts.

Too Early to Ascertain Tourism Impact

110. (SBU) The timing of the AI outbreak may be fortuitous: it is still early enough in the winter that tourist bookings for the May-October season could still come through. A key factor will be whether the authorities seem to have the AI problem under control in the next few weeks, or whether the headlines are still about spreading outbreaks among birds or, worse still, among people.

111. (SBU) The tone of foreign governments' and international organizations' comments--that could affect tourists' decisions--have mostly been restrained. A WHO official specifically commented on travel last week, saying there was no reason to cancel plans to travel to Turkey. On the other hand, Russia's Chief Epidemiologist discouraged Russians (along with Germany the leading source of visitors) from traveling to Turkey. Greece has reportedly issued a travel warning.

112. (SBU) To date, the evidence that bookings are being affected is anecdotal and somewhat contradictory. The big German tourist operator TUI said bookings for Turkey are sluggish but it is too early to say how the season will turn out. Both a leading travel agency and the Turkish travel agents association denied to ConGen Istanbul that their bookings are down; they thought the situation could be managed if the politicians and press handled it well. TOBB's Koksall, who is also a former Tourism Ministry official, expressed the hope that bird flu might not cause many Russians cancel trips to Turkey, given their track record of not canceling at the time of

the Iraq war or after terrorist attacks.

Comment

[13](#). (SBU) The impact on the overall economy from the AI scare can still be contained, provided there are not continued new outbreaks -- especially in humans -- that fuel sensational press coverage and could hit the tourism industry. Much will depend on events in the critical next few weeks.
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